

Message Text

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SUBJECT: SEPTEMBER 16 MEETING BETWEEN PRIME MINISTER BARRE
AND TREASURY SECRETARY BLUMENTHAL

1. TREASURY SECRETARY BLUMENTHAL MET ON WEDNESDAY,
SEPTEMBER 16, AT 3:00 P.M. WITH PRIME MINISTER BARRE.
PARTICIPANTS INCLUDED JACQUES DE LAROSIERE, DIRECTOR OF THE
TREASURY; FRANCOIS DE LABOULAYE, DIRECTOR OF POLITICAL AF-
FAIRS, FOREIGN MINISTRY; FOR U.S., UNDER SECRETARY SOLOMON,
AND REBECCA SCHWARTZ OF TREASURY.

2. INTERNATIONAL RESERVES: SECRETARY BLUMENTHAL ASKED
PRIME MINISTER BARRE IF HE HAD RECEIVED ANY QUESTIONS AT
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THE PRESS CLUB LUNCHEON CONCERNING EXCHANGE RATES. BARRE
SMILED AND SAID THAT ON THE SUBJECT OF GOLD HE HAD MERELY
RESPONDED WITH THE PROVERB "SILENCE IS GOLDEN." BARRE
FURTHER ELABORATED BY COMMENTING THAT HE WAS NEVER AN AD-
VOCATE OF GOLD STANDARD, BUT THAT IT WAS CURIOUS HOW GOLD
HAD CONTINUED TO MAINTAIN SUCH COSTANT CREDIBILITY
THROUGH THE YEARS. HE ADVOCATED A COMBINATION OF RESERVES

COMPOSED OF SDR'S, GOLD, AND DOLLARS. AS AN ASIDE, HE NOTED THAT DOLLARS COULD NEVER BE REMOVED FROM RESERVES.

3. ENERGY FINANCING: SECRETARY BLUMENTHAL STATED THAT THE U.S. HAS A SERIOUS PROBLEM IN THE AREA OF FINANCING ENERGY NEEDS. EFFORTS ARE BEING MADE TO FIND SOLUTIONS THAT DO NOT BRING A SHOCK TO THE ECONOMY. A SUBSTANTIAL OPEC PRICE INCREASE (10-15 PERCENT) WILL ONLY MAKE MATTERS WORSE FOR THE NEXT SEVERAL YEARS. AT THIS POINT, HE ASKED BARRE WHAT COULD BE DONE TO MAKE OPEC UNDERSTAND THIS. BARRE OFFERED NO CLEAR SUGGESTIONS BUT RESPONDED THAT WHAT IS IMPORTANT IS NOT A SUDDEN REDUCTION OF ENERGY IMPORTS. WHAT IS IMPORTANT IS AN INDICATION OF TENDENCY. THE U.S. MUST REDUCE ENERGY IMPORTS BY A LIMITED AMOUNT AND THEN ATTEMPT TO STABILIZE IMPORT DEMAND. THIS WOULD BE A SIGNAL TO OTHER ECONOMIES THAT THE U.S. IS MASTERING THE PROBLEM. PSYCHOLOGICAL RESULTS ARE MOST IMPORTANT. BARRE EXPRESSED CONCERN THAT PEOPLE MAY LOOK AT U.S. TRADE STATISTICS AND SAY THE SITUATION IS DETERIORATING. THIS CREATES AN UNMANAGEABLE SITUATION. WHAT INVESTORS NEED IN EUROPE ARE GOOD EXPECTATIONS ON THE FUTURE STABILITY OF THE SYSTEM. ALTHOUGH WE LIVE IN INSTABILITY, THE INVESTOR MUST HAVE STABLE EXPECTATIONS FOR THE NEXT FIVE YEARS, EVEN IF THE FACTS DO NOT ENTIRELY WARRANT IT. SECRETARY BLUMENTHAL EXPLAINED THAT SCHLESINGER IS TRYING TO GET PASSAGE OF AN ENERGY BILL
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WHICH PLACES MAJOR EMPHASIS ON ECONOMIZING ON CONSUMPTION. AFTER THIS BILL IS PASSED, THE U.S. MUST MOVE TOWARD EXPANDED PRODUCTION ACCOMPANIED BY A REDUCTION OF IMPORTS. AT THIS POINT BARRE ASKED IF THE U.S. COULD DIVERSIFY ITS SOURCES OF IMPORTS BEYOND THE MIDDLE EAST AS THIS WOULD CAUSE CONTINUOUS PRESSURE ON THE PRICE. UNDER SECRETARY SOLOMON COMMENTED THAT INITIAL RESEARCH ON THIS POSSIBILITY HAD NETTED LESS THAN OPTIMISTIC RESULTS. THE GLOBAL BALANCE PROVIDES LITTLE ROOM FOR MANEUVER OVER THE NEXT TWO OR THREE YEARS. COUNTRIES SUCH AS MEXICO SIMPLY WILL NOT HAVE INCREASED PRODUCTION CAPABILITIES BEFORE 1981 OR 1982. SOLOMON FURTHER ADDED THAT HOW MUCH PLAY THERE IS DEPENDS ON WHAT ASSUMPTIONS YOU MAKE. BARRE CONCLUDED FROM THIS EXCHANGE THAT THE U.S. DID AT LEAST HAVE THE ABILITY TO EXPAND PRODUCTION. BLUMENTHAL CONCURRED.

4. UNDER SECRETARY SOLOMON ASKED BARRE IF HE WOULD BE WILLING TO SUPPLY DETAILED INFORMATION ON HOW THE FRENCH ENERGY CEILING WORKS. BARRE EAGERLY ACQUIESCED AND BEGAN EXPLAINING THE CRUDE OUTLINE OF THE MANY MEASURES INCLUDED IN THE PROGRAM. IN 1977 THE CEILING ON ENERGY

IMPORTS IS FIXED AT 55 BILLION FRANCS. DURING THE FIRST SEMESTER, THE CEILING WAS MAINTAINED WITH A GAIN OF 1 PERCENT. TWO FACTORS HAVE CONTRIBUTED TO ITS SUCCESS.

ELECTRICITE DE FRANCE HAS EXPANDED PRODUCTION AND THE FRANC HAS APPRECIATED VIS A VIS THE DOLLAR. THE CEILING WAS CALCULATED ON THE BASIS OF FIVE FRANCS TO THE DOLLAR. BARRE EMPHASIZED THAT WAS WHY FRANCE WAS SO ANXIOUS TO MAINTAIN STABILITY WITH THE DOLLAR. DE LAROSIERE ALSO POINTED OUT THAT GASOLINE PRICES WERE KEPT VERY HIGH.

5. BLUMENTHAL EXPLAINED THAT ENERGY MEASURES MUST BE SUITED TO THE CHARACTERISTICS OF EACH COUNTRY. IN THE U.S. THE ELASTICITY OF DEMAND ON GASOLINE IS VERY LOW, SO
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ANY PRICE INCREASE WOULD HAVE TO BE VERY LARGE. THERE WERE, HOWEVER, MANY OTHER MEASURES WHICH COULD BE ADOPTED. DE LAROSIERE INTERJECTED THAT A PRICE INCREASE COULD PERHAPS LEAD TO INCREASED PRODUCTION.

6. OFFICIAL INTERNATIONAL LIQUIDITY: BLUMENTHAL EXPRESSED THE HOPE THERE WOULD BE A G-5 MEETING TO DISCUSS THE INTERNATIONAL RESERVE SITUATION. HE SUMMARIZED THE SITUATION BY NOTING THE WITTEVEEN FACILITY HAD BEEN PUT TOGETHER WITH OPEC PROVIDING 48 PERCENT OF THE RESOURCES. THE SIXTH QUOTA INCREASE IS GOING INTO EFFECT AND DISCUSSIONS ARE BEGINNING WITH REGARD TO THE SEVENTH QUOTA INCREASE. IN ADDITION, THERE ARE SOME LENDABLE RESERVES IN THE IMF. BLUMENTHAL STATED THAT HE FELT THE SYSTEM WAS IN GOOD SHAPE, BUT ASKED FOR BARRE'S VIEW ON THE SUBJECT. BARRE RESPONDED THAT HE SHARED BLUMENTHAL'S POINT OF VIEW. FOR THE NEXT THREE YEARS INTERNATIONAL LIQUIDITY SHOULD BE SUFFICIENT. IF LIQUIDITY IS INCREASED TOO MUCH, THE ADJUSTMENT IN THE BALANCE OF PAYMENTS COULD BE TOO GREAT. DE LAROSIERE CAUTIONED THAT THERE COULD BE SOME DIFFICULTY IF TURKEY, GREECE, SPAIN, AND PORTUGAL HAVE SOME LARGE FINANCING NEEDS DURING THE NEXT TWO TO THREE YEARS. THESE COUNTRIES HAVE BEEN BORROWING HEAVILY, AND IF THERE IS AN EXTERNAL CRISIS, IT WILL REQUIRE LARGE SUMS OF MONEY TO CONSOLIDATE THE PAST DEBT. SOLOMON SUGGESTED THERE WOULD BE 27-28 BILLION DOLLARS IN FUND RESOURCES AVAILABLE DURING THE NEXT 2-1/2 YEARS. DE LAROSIERE FELT 20 BILLION DOLLARS WAS THE MORE REALISTIC FIGURE. AS A RESULT, HE BELIEVED THE SEVENTH QUOTA INCREASE WAS MOST IMPORTANT. SOLOMON STATED THAT PERHAPS A LARGER SEVENTH QUOTA INCREASE SHOULD BE CONSIDERED. DE LAROSIERE SAID THAT HE THOUGHT A 75 PERCENT QUOTA INCREASE WOULD BE NEEDED. BLUMENTHAL SAID THAT THE U.S.
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HAS NOT YET DECIDED ON THE SIZE OF THE QUOTA. BARRE USED THIS OCCASION TO EXPRESS THE VIEW THAT IF THE LEFT WINS THE FRENCH ELECTIONS, FRANCE WILL FACE A LARGE FINANCIAL CRISIS. IT WOULD NEED TO FIND LARGE RESERVES. HE EXPLAINED THAT THE LEFT BELIEVES IT CAN GO TO THE FUND AND ASL FPR 18-

MONTH CREDITS TO FINANCE AN EXPANSION PROGRAM. BARRE QUALIFIED HIS REMARKS BY SAYING THAT HE PERSONALLY DID NOT FEEL THE LEFT WOULD WIN. SOLOMON POINTED OUT THAT THE FUND WOULD NEVER FINANCE AN EXPANSION PROGRAM, ONLY STABILIZATION. BLUMENTHAL FINALLY ENDED THIS PHASE OF THE DISCUSSION BY NOTING THAT THE FINANCIAL PROBLEMS FACING COUNTRIES LIKE TURKEY, SPAIN, AND PERU UNDERLINE THE NEED TO WORK FOR ADJUSTMENT TO THE ENERGY CRISIS. THERE IS A NEED TO MAINTAIN CLOSE CONTACT OVER THE NEXT YEAR (THROUGH THE G-5) IN ORDER TO COORDINATE POLICIES.

7. MTN: BLUMENTHAL BROACHED BARRE ABOUT INCLUDING A STATEMENT IN THE INTERIM COMMITTEE RESOLUTION IN SUPPORT OF THE MTN. BARRE RESPONDED THAT FRANCE HAS NOT TAKEN A POSITION AGAINST THE MTN. HE FELT THAT THE DESIRE TO CONCLUDE NEGOTIATIONS BY NEXT FEBRUARY WAS MUCH TOO AMBITIOUS. HE SUGGESTED THAT IT WAS MORE REALISTIC TO EXPECT A CONCLUSION TO THE NEGOTIATIONS BY JULY, 1978. BLUMENTHAL ADMITTED THAT NEGOTIATIONS TAKE TIME, BUT HE FELT IT WAS IMPORTANT TO HAVE A SCHEDULE AND MAKE A REASONABLE EFFORT TO STICK TO IT. HE ASKED BARRE TO FOLLOW UP ON THIS MATTER WITH ROBERT STRAUSS. SOLOMON POINTED OUT THAT AT MTN NEGOTIATIONS WOULD PROBABLY NOT BE CONCLUDED BEFORE THE FRENCH ELECTIONS. CONVERSATION ON THE MTN ENDED AT THIS POINT, BUT JUST PRIOR TO CONCLUDING THE MEETING THE ISSUE OF SUPPORTING THE MTN IN THE INTERIM COMMITTEE RESOLUTION WAS AGAIN RAISED. DE LAROSIERE SUGGESTED INCLUDING A PARAGRAPH ON THE ENERGY PROBLEM. BARRE STATED THAT IF THE RESOLUTION PROVIDED A GENERAL VIEW OF CONDITIONS NECESSARY TO CREATE BETTER INTERNATIONAL

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EQUILIBRIUM, IT COULD MAKE PEOPLE REALIZE THAT THE PROBLEMS ARE ALL INTER-RELATED. THIS WOULD BE QUITE USEFUL.

8. EXPORT CREDITS: SOLOMON EXPRESSED APPRECIATION FOR THE HELP IN DISSUADING THE ITALIANS FROM GIVING IN TO SOVIET DEMANDS AND ABANDONING THE CONSENSUS. HE

CAUTIONED THAT IF FRANCE VIOLATES THE CONSENSUS IN MEETING SOVIET DEMANDS, THE ITALIANS HAVE CLEARLY STATED THEY WILL FOLLOW SUIT. THE U.S. IS ANXIOUS TO KEEP THE CONSENSUS ALIVE. BARRE STATED THAT WHEN THE CONSENSUS WAS NEGOTIATED, FRANCE RESERVED THE RIGHT TO RESPECT PREVIOUS OBLIGATIONS, IN PARTICULAR THE SOVIET PROBLEM. FRANCE WOULD LIKE TO INCREASE THE RATES AND RESPECT THE CONSENSUS. BARRE SAID HE WOULD TRY TO RAISE THE SOVIET RATES. IT WAS HIS INTENTION TO AT LEAST IMPOSE AN "INTELLIGENT FINAL LEVEL." CHRISTOPHER

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